



STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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January 28, 1997

Office of the Secretary  
Federal Communications Commission  
1919 M Street N.W., Room 222  
Washington, D.C. 20554

RE: In the Matter of Access Charge Reform  
FCC 96-488/CC Docket No. 96-262

Dear Secretary:

Pursuant to FCC Rules, Sections 1.399 and 1.411 et seq., enclosed is the original and 12 copies of the Comments of the Washington Utilities and Transportation Commission (including two copies marked "Extra Public Copy") regarding the above referenced matter. Also enclosed is a 3.5 inch diskette formatted in WordPerfect 5.1 containing the above referenced comments.

Sincerely,

  
STEVE McLELLAN  
Secretary

Enclosures

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Before the  
Federal Communications Commission  
Washington, D.C. 20554

In the Matter of

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CC Docket No. 96-2

Access Charge Reform

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FCC 96-488

COMMENTS OF THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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## I. INTRODUCTION AND SUMMARY

The Washington Utilities and Transportation Commission ("WUTC" or "Commission") welcomes the opportunity to comment on access charge reform. Access charge reform is a critical component of the transition to competitive telecommunications markets, along with interconnection policy and universal service reform. It is important that access charge reform be accomplished in a manner which is complementary with these other initiatives and which advances the interests of consumers as well as telecommunications companies.

In these comments, the WUTC makes several points. In the area of rate structure modification, *inter alia*, we urge that any cost recovery mechanism for subscriber loop costs must be closely coordinated with efforts to maintain universal service. With regard to "market-based" versus "prescriptive" approaches to access reform, we comment that there remains a need for some prescription, given that sufficient competitive forces do not yet exist in the local market to warrant complete reliance on market forces. On the issue of transition, we address issues regarding the proper definition and determination of the "remaining" costs to be recovered. We caution that relying solely on market-based recovery of remaining embedded costs under the current state of competition may result in excessive recoveries from captive customers.

## II. RATE STRUCTURE MODIFICATIONS (§§ 55-139)

### A. Alternative Methods of Recovery of Loop Cost

In Paragraph 60, the FCC proposes to recover the Carrier Common Line (CCL) portion of the loop cost through a flat per-line charge assessed against each customer's presubscribed interexchange carrier (PIC). If customers elected not to choose a PIC, the charge would be billed by the LEC directly to the customer. Comments are sought on this approach, and discussion is requested on the potential problem created when end-user customers have selected PICs but use other IXC's for Internet, fax, interexchange or other interstate service by "dialing around" the PIC. Alternative methods proposed include bulk billing to each carrier; a capacity charge based on the number and types of trunks purchased; and port charges based on either trunk-side ports or on trunk-side and line-side ports.

The WUTC, in the U S WEST Communications, Inc. ("U S WEST") rate case order in Docket UT-950200<sup>1</sup>, eliminated the intrastate CCL for U S WEST after finding that the intrastate portion of the cost of the loop was fully recovered through local rates. For interstate purposes, the Commission does not oppose a flat rate to replace the current CCL. However, we believe it is essential that whatever alternative rate structure is selected should not result in flat rates to end users that render basic telephone service unaffordable. Any cost recovery mechanism for subscriber loop costs must be closely coordinated with efforts to

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<sup>1</sup>*Washington Utilities and Transportation Commission v. U S WEST Communications, Inc.*, Docket No. UT-950200, Fifteenth Supplemental Order, pp.110 - 116, attached as Appendix A.

maintain universal service. Furthermore, it would not be appropriate to create a SLC by another name, by charging CCL costs as a flat rate to IXCs who in turn charge it to subscribers. Such an approach would circumvent the work of the Universal Service Joint Board on SLC charges.

Paragraph 61 also requests comments on whether any of the changes adopted should be applied to rate-of-return LECs. While access charge reform will eventually be necessary to facilitate competitive entry in areas served by rate-of-return LECs, such reforms must be considered in conjunction with the rural exemptions from interconnection requirements and universal service reforms. The impact on consumers and the national universal service goals must be evaluated when developing and applying such reforms. The WUTC believes care should be taken to first determine the impact on captive local ratepayers and the national universal service goals before the application of such reforms.

In Paragraphs 62 and 65, the FCC discusses the possible elimination of SLC caps for lines used by multi-line business customers and residential lines beyond the primary residential line. It asks whether an alternative mechanism to recover common line costs that are currently recovered through the CCL would be necessary under that scenario. In Washington State, competitive LECs are not required to charge a SLC. Thus, if the SLC were to be used as the primary cost recovery mechanism for common line costs, it would not be competitively neutral. We believe that if the cap on the SLC is eliminated or raised, it should be optional,

with LECs being allowed to recover the interstate access portion of the loop through a flat-rated CCL charge to the IXC's if they choose. The other option would be to require all non-incumbent LECs to adopt a SLC charge as a rate element consistent with incumbent LECs. The FCC's proposal not to increase the SLC for the primary residential line and single line business lines is consistent with the Joint Board Recommended Decision, in that it will not increase the end user SLC charged to those customers or deter their access to the network.

The FCC asks under what circumstances LECs should be granted rate structure flexibility in their recovery of interstate common line costs (Paragraph 62). The WUTC endorses rate flexibility with the proviso that it not be achieved by shifting costs to local or intrastate jurisdictions, or otherwise result in high costs being shifted to captive customers in non-competitive geographical areas.

Paragraph 66 asks if a transition period should be required for changes to the SLC. We believe this should not be necessary for price-cap LECs but should be seriously considered if changes to the SLC are contemplated for non-price cap LECs.

In paragraph 67, the FCC states that Section 254(e) requires the FCC to adopt only explicit support mechanisms for universal service support. The FCC seeks comment on whether geographic averaging of SLCs is an implicit subsidy that is inconsistent with the requirements of Section 254(e) and, thus, whether the statute requires the deaveraging of the SLC.

The WUTC concurs with the FCC's reading of section 254(e) to require universal service support to be explicit. However, the WUTC does not consider the SLC as any kind of universal service support or subsidy, but rather a mechanism to recover a portion of appropriately allocated interstate loop costs. The WUTC does not believe that 254(e) in any way requires or implies that the SLC charge should be deaveraged. It may be appropriate in the long run to further explore deaveraging of the SLC, but only if adequate universal service mechanisms are in place.

#### **D. Local Switching**

In paragraph 73, the FCC seeks comments on how states are addressing the issue of unbundling of local switching charges. Initially, interim rates have been established in arbitrated agreements that have come before the WUTC for approval. In December 1996, the WUTC opened Docket UT-960369 to address, on a generic basis, the pricing of interconnection, unbundled elements, transport and termination, and resale for Washington telecommunications companies. It intends to address unbundled local switching costs and their pricing in this proceeding. The Commission anticipates holding hearings on these issues in April, with a decision to be issued by mid-1997.



#### **E. Entrance Facilities and Direct-Trunked Transport Services**

In paragraph 86, the FCC tentatively concludes that flat rates should be mandated for these services since the facilities are dedicated to individual customers, and since flat rates reflect how the costs are incurred by the LECs. The FCC also asks whether incumbent LECs should be allowed to offer transport services differentiated (presumably by rate differences) by whether the LEC or the IXC makes the channel facility assignments.

The WUTC agrees that prices for services should be based on their cost characteristics. We tentatively agree that separate charges could be established for transport services based on the entity making the channel facility assignments, but only if there is a cost difference to support it, and it does not needlessly complicate the access tariff.

#### **F. Tandem-Switched Transport Services**

In this NPRM, the FCC proposes to reassign TIC costs to the rate elements causing the costs, including tandem switching rate elements. In paragraph 95, it asks for comments on the relationship between the proposed transport rate structure rules and the two reform proposals, market-based or prescriptive. It asks whether the goal of driving access charges to forward-looking economic costs is consistent with retaining rules governing transport rate level relationships.

The WUTC believes that it is entirely possible to achieve forward looking economic costs while establishing or maintaining relationships among rates. For example, the Commission in Docket No. UT-941464 (Fourth Supplemental Order, page 81) found that pricing ratios for transport elements could, and should, be established using TSLRIC cost relationships, and confirmed this requirement in the U S WEST general rate case. (See Appendix A, page 115)

The WUTC is generally in favor of eliminating the TIC and assigning costs according to causation. In the recent U S WEST rate case the Commission eliminated the intrastate equivalent of the TIC (known as the residual interconnection charge, or RIC), finding that there was no need for it since the company's other transport and switching rates were to be set to provide the appropriate level of revenues. (See Appendix A, page 114).

### **III. MARKET-BASED AND PRESCRIPTIVE APPROACHES TO ACCESS REFORM (§§161-239)**

While supportive of the market-based approach in areas where sufficient competition exists, the WUTC advocates the use of prescriptive methods to more accurately align access charges with costs in the short term or until sufficient competition exists in the local markets. While a market-based approach has theoretical appeal, sufficient competitive forces need to be present for a market-based approach to work effectively. We do not believe that sufficient competitive forces exist for local exchange and access services in the State of Washington to

warrant exclusive reliance on a market-based approach. As a result, the best approach to access reform is to employ a more prescriptive method with regulators taking a more central position in determining access charge rate development until the presence of sufficient competitive forces eliminates the need for price regulation of access services.

Of the prescriptive methods discussed in the FCC's NPRM, we believe that the simplest, and most effective, alternative is to employ a rate prescriptive approach which phases current access charge levels downward over a period of time until they reach their forward-looking economic costs. This method provides better assurance that the goals of the Commission are met in a timely and uniform manner. We believe that proposals which advocate adjusting LEC Price Cap Indices and Price Cap Plans have merit but are not the most efficient means to achieve effective competitive entry into access and LEC services because they inherently create incentives for LEC companies to include certain uneconomic costs in their cost calculations. In addition, this approach could create administrative burdens on both the Commission and incumbent LECs to establish verifiable evidence that can be used to assess the development of competitive entry in access and local service markets.

#### **IV. TRANSITION (§§ 241-260)**

##### **A. Universal Service Recommendations**

The WUTC agrees with the FCC's statement in paragraph 244 that access charges and universal service reform must be implemented in a complementary fashion. It is extremely important, however, that access charge reform not be accomplished by simply "dumping" cost recovery responsibilities on to the universal service mechanism. The universal service objectives of the Telecommunications Act, as set out in Section 254, do not encompass wholesale recovery of access costs. Instead, the Act requires that universal support be limited to explicit and sufficient amounts tied to the express purposes in Section 254.

"Double recovery" by LECs from both universal service and access charge cost recovery mechanisms must be precluded. One approach would be to adopt a presumption that any revenues obtained from universal service funds would be offset against recovery claimed from access charges. LECs would have the burden of establishing to the appropriate regulatory authority that additional recovery was appropriate.

## **B. Treatment of Remaining Embedded Costs**

### **1. Nature/Magnitude of Remaining Costs**

If pricing of access is based on forward-looking economic cost there may be some "remaining" embedded costs which would not be recovered. A portion of this represents the difference between the embedded and forward-looking costs of access per se. The larger question is the recovery through access charges of embedded costs that are not attributable to the provision of access. It is this allocation which accounts for the bulk of the "above-cost" recovery at issue in this proceeding. For these costs, the issue is not so much whether they are based on an embedded or forward-looking methodology, but whether they should be allocated to interstate access at all. To the extent any recovery of embedded costs is allowed, there should first be a review of whether the costs are appropriate.

To the extent that some recovery is determined to be appropriate, there is appeal to the notion of determining the amount as of a date certain. The benefit of this approach is that it brings "regulatory closure" to the issue and supplies predictability for industry participants and regulators. Selection of a specific date may need to be done with care to avoid a challenge of arbitrariness. While the idea has practical appeal, there may be some legal and theoretical problems with the notion that some costs simply no longer are incurred after a specific point in time. There may need to be broad consensus from incumbents to obtain acceptance of a "drop dead" date for recovery of embedded costs.

## 2. Recovery of Remaining Embedded Costs (§§256-258)

The NPRM asks whether LECs have an opportunity, for legal or equitable reasons, to recover embedded costs. This question might be better phrased: (1) Are state and/or federal regulators required by law to permit LECs an opportunity to recover embedded costs? (2) If not required to by law, should some recovery be permitted as a matter of fairness? The answer to the first question is to a large degree in the hands of the courts. LECs are already bringing constitutional "takings" challenges against new forward-looking cost-based pricing regimes under the Act. The success of these efforts will likely determine whether the FCC and state commissions are required to allow recovery of embedded costs. In the past, the answer may have been a clearer "yes." The economic assumptions underlying the 1996 Act, however, raise questions about the degree to which such recovery is now appropriate if regulatory decisions are to be consistent with the Act.

The answer to the second question is somewhat dependent on the first. If there is no legal requirement to allow recovery of embedded costs, then imposing such recovery on the grounds of "fairness" alone is questionable. Regulators must look not only at equity issues, but at other factors as well, such as the competitive impact of allowing embedded cost recovery, and the impact on customers. There is a good argument for taking into account the mitigating effect of new revenue streams, particularly in the context of the "fairness" approach.

If a market-based approach is adopted, then the question loses some of its meaning. The market itself will decide whether the "recovery" is permitted and will impose limitations on the scope of that recovery. In theory, if the market is sufficiently competitive, recovery of embedded costs will be limited.

While there may be some serious practical and policy limits to this approach, state commissions are probably the most qualified to determine the scope and existence of any embedded costs. They are also best equipped to decide whether overinvestment and inefficiency have occurred. Recovery for amounts incurred imprudently or inefficiently should not be permitted. If states are to make these decisions, however, they must not be treated as merely "advisory" at the federal level. As a practical matter, state review of embedded costs cannot be limited to the issue of access, since the determination requires analysis on a total company basis.

### 3. Recovery Mechanisms (§§261-270)

In the event recovery is permitted, the FCC proposes two possible recovery mechanisms, "market-based" and "regulated."

Market Based (§261). This approach relies on the pricing and rate structure flexibility afforded to price cap LECs. This approach is the most desirable from a theoretical perspective, but does not seem workable, given the limited existence of competition at present and the time it will take for competition to develop.

Allowing market-based recovery while significant market power still exists is likely to simply result in excessive recovery from the captive customer.

Regulated Approach (§263). This approach contemplates recovery of a fixed amount over a fixed period of time ("amortization"). This has the advantage of certainty, both of time and amount. As noted above, it brings the issue to closure. Getting to the specific recovery amount may involve substantial litigation resources, however.

Regulated approach alternative (§264-265). An alternative would be to allow recovery through a surcharge on all access customers or providers and users of telecommunications services. Any recovery surcharge should be competitively neutral. Preferably it should be assessed on carriers rather than on end-users. If either regulated approach is used, there should be a limit on LEC earnings to reflect no-risk recovery.

Under-depreciation (§266). The WUTC would not support "remaining cost" recovery based on the premise that under-depreciation has occurred in the past. The WUTC has devoted significant attention to depreciation issues in the recent past, particularly with regard to U S WEST. In a May 1995 decision, the Commission allowed U S WEST to use "equal life group" (ELG) depreciation on a forward-looking basis. It granted the company's petition to amortize the reserve deficiency over five years and denied a proposal to shorten plant lives. Among other findings, the WUTC determined that U S WEST had consistently obtained full and timely capital recovery in Washington and that either the "vintage group" (VG) or ELG method, when combined with remaining life depreciation, would ensure that



U S WEST would have an opportunity to recover its investments. The Commission's decision was appealed by U S WEST and affirmed in all respects by the Superior Court. A copy of the court decision is attached as Appendix B.

Adjustments to reflect changes in regulation (§§267-270). Allowing an increase in access charges at this time seems to have the potential for serious anticompetitive impact and, therefore, to run counter to the intent of the 1996 Act. In U S WEST's most recent rate case, the WUTC determined that a substantial reduction in access charges was reasonable. *See generally*, Appendix A. As part of the rate case order, the Commission ordered a reduction of approximately \$29 million in access charges. A local transport restructure was adopted, transport rates were priced comparably to dedicated access rates, a proposed residual interconnection charge (RIC) was rejected, and the carrier common line charge was eliminated (CCLC).

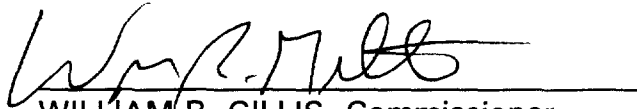
## VI. CONCLUSION

The Washington Utilities and Transportation Commission asks the FCC to take the foregoing comments into consideration as it reviews access charge reform. We look forward to further comment and participation as this proceeding moves forward.

DATED this 28th day of January 1997, at Olympia, Washington.

A handwritten signature in black ink, appearing to read "Richard Hemstad", written over a horizontal line.

RICHARD HEMSTAD, Commissioner  
Washington Utilities and Transportation  
Commission

A handwritten signature in black ink, appearing to read "William R. Gillis", written over a horizontal line.

WILLIAM R. GILLIS, Commissioner  
Washington Utilities and Transportation  
Commission

## **APPENDIX "A"**

The Commission finds that the Company's proposed changes are supported by the record and accepts them, with slight modifications. First, the Company shall consider long-term stimulation effects in calculating revenue. To the extent that short-term effects are used and such rates continue in effect, the Company's income would be understated. Second, we accept the Commission Staff and Public Counsel/AARP proposal to require some non-recurring charge because of the costs of administration. Adding a charge will discourage customers from hopping back and forth on and off the plan and will recover the administrative costs from the cost-causers. We reject AT&T's arguments that the proposal is anticompetitive, because no costs are being spread to captive customers, because access charges are also being reduced, and because a number of competitors are becoming active in the toll market

### 3. Toll Pac

USWC proposes reducing the Toll Pac discount for MTS service from the current 30 percent to a proposed 15 percent, and freezing the service, contending that it no longer achieves its purpose and that it is out of line with other services USWC offers in other states.

Public Counsel/AARP claims Toll Pac relieves some community pressure for extended area service and provides one of the few residential toll discounts available. WITA supports the Public Counsel/AARP analysis.

The result of this order will be a significant toll decrease, reducing the need for a Toll Pac discount package. EAS has been granted to many areas, also reducing need. The discount is not cost-related. For these reasons, the Commission accepts the Company proposal.

### 4. Revenue Impact

Staff's corrections of the Company's calculations and use of long run elasticity demand result in the total revenue impact of the toll reductions of \$32,268,662 (Ex. 382, p. 10).

#### B. Switched Access

USWC provides switched access service to interexchange carriers (IXCs), also known as long distance companies, who use USWC's network to connect their customers' calls. Without that access, each carrier would have to build its own local exchange lines to provide long distance service to its customers.

It is not a matter of dispute that access charges greatly exceed the incremental cost of access.<sup>56</sup> According to the record, USWC's current switched access rates greatly exceed its

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<sup>56</sup> The incremental cost of access does not include any costs of the local loop or non traffic-sensitive central office equipment. Those facilities are shared by local and toll services and are

own direct cost calculations (Ex. 485C; TR 3209-10). Access charges are significant beyond their direct contribution to USWC revenues because they are an element in other companies' charges.

Proposals made by parties range from no reduction in access charges (Public Counsel/AARP) to a revenue reduction of almost \$47 million (AT&T).<sup>57</sup> USWC proposed a reduction of about \$15.3 million. Commission Staff presented evidence that USWC's proposed rates would reduce revenues by \$12 million, rather than \$15.3 million. Staff supported a set of access charge reductions that would produce a \$12.0 million reduction in revenues.

The Commission has concluded that a substantial reduction in access charges is reasonable. The appropriate reduction should exceed the amounts proposed by Staff and USWC. Because access charges currently are above cost, the magnitude of reductions are primarily a function of the overall revenue requirement in this proceeding and the other rate design changes that must be made. We believe it is appropriate to require an overall reduction of approximately \$29 million, consisting of \$22 million in access charges paid by IXC's and \$7 million in access charges paid by independent local exchange companies, with an additional \$5.3 million reduction phased in over the next two years.<sup>58</sup> The Commission also believes that extensive changes in the structure of access charges are in order. These changes include adoption of the local transport restructure, setting transport rates equal to comparable dedicated access rates, rejecting the proposed residual interconnection charge (RIC), and eliminating the carrier common line charge (CCLC).

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properly included as a shared cost rather than an incremental cost of either service. If loop costs were included in the incremental cost of switched access (i.e., if IXC's were required to pay the full cost of the facilities necessary to reach their customers), switched access rates would fall far short of covering cost.

<sup>57</sup> DOD/FEA contend that the 1996 Telecom Act is relevant. They argue that, because the Telecom Act forbids setting interconnection elements with reference to a rate of return proceeding, any access rates approved in this proceeding are unlawful, null, void, and violate several provisions of Act. The Commission disagrees. We recognize that this proceeding is transitional and that the rates we set may be interim. The rates are a part of the Company's overall revenue requirement established in a pending proceeding. The Telecom Act has not invalidated any existing rates. The Commission is not beginning a new proceeding aimed at access rates. It is not delaying or impeding any federally prescribed process for access rates. The Commission does not challenge the primacy of the Telecom Act and intends to operate in compliance with it. The rates authorized herein will be in effect only until superseded by rates established pursuant to future lawful process. We believe that the actions taken herein are consistent with the Telecom Act. See, Telecom Act, Sec. 251(b)(3).

<sup>58</sup> The access revenue decreases should offset and coincide with the revenue increases resulting from phased in increases in basic exchange service and terminal loops authorized elsewhere in this order.

Several factors lead to the decision to make such a substantial reduction in access charges. First, the markup over incremental cost is substantially greater for switched access than for other major services that use the local loop, namely toll and local exchange service. Second, access service is purchased by USWC's competitors in the toll market. The Staff and USWC proposals would have reduced USWC's retail toll rates by more, on an average cents-per-minute basis, than its wholesale access rates, and therefore deserve more scrutiny. Third, the reduction in access rates can be expected to have substantial economic benefit for residential and business customers of this state.<sup>59</sup> Toll calls are a substantial portion of the total telephone bill of many customers, and this reduction will make their overall telephone service more affordable. The resulting rates will still make a contribution to all shared costs, including costs of the local loop.

1. Local Transport Restructure (LTR)

In Docket No. UT-941464, the Commission accepted the general structure of the company's proposed LTR, but rejected rates and included guidelines for revisiting the subject in this case. USWC proposes to reduce local transport rates by \$15 million and to impose zone differentials. No party has opposed LTR. Areas of disagreement instead center on the specific rates and rate elements, particularly the Carrier Common Line Charge and the Residual Interconnection Charge.

The Commission accepts the basic restructure developed in UT-941464. Specifically, USWC should file rates for dedicated trunked transport based on the rates for comparable service in its dedicated access tariffs, for tandem switched transport as it proposed, and for local switching. The LTR proposal also included continuation of the CCLC and creation of a new RIC. Those rate elements should not be included in the access service rate structure, as discussed below. The overall level of revenues from access services should initially be approximately \$47.9 million, including revenue from IXCs and independent LECs.

2. Carrier Common Line Charge (CCLC)

The CCLC was created 10 years ago as a mechanism designed to avoid the "rapid and total deloading of NTS (non-traffic sensitive) costs onto the entire class of end users in the state." (U-85-23 et al., 18th Supp. Order, p. 8). There has not been, until this case, a comprehensive review of USWC rates and revenue requirement. This case provides the

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<sup>59</sup> Some parties have expressed concern that the interexchange carriers will not pass through the access charge reductions by lowering their in-state long distance rates. This is a legitimate concern, though we believe competition among carriers will cause the reduction to be passed through. With a reduction of this magnitude, the effect on retail rates should be easily measured. Parties represented on the record that pass-through could be expected, and the Commission will consider the speed and the extent of pass through any future proceedings in which further access charge reductions are proposed, including the two phased-in reductions ordered here.

opportunity to examine and question the value of rate elements, particularly those elements that work against an efficient and straightforward rate design. The process of determining the CCLC, by USWC admission, involves "an elaborate and involved set of allocations" (Ms. Wilcox, TR 3232, line 24).

AT&T argued that the CCLC is intended to contribute to the costs of the local loop, but the record establishes that the revenues attributed to local service cover the incremental cost of the services. USWC countered that the Commission's previous orders have recognized that carriers receive benefit from using USWC's network and should contribute to the common overheads incurred in maintaining that network. Staff and Public Counsel/AARP also support the continuance of the CCLC for the same reasons.

The Commission's accepts AT&T's argument that the CCLC is best eliminated. The CCLC has outlived its function and it is time to retire it as a specific rate element of switched access. By eliminating the CCLC, the Commission is not excusing toll carriers from responsibility for supporting the shared and common costs of the network it uses to reach its customers. On the contrary, the revenues assigned to switched transport and switching still include a significant contribution to shared and common costs. However, there is no longer a reason to treat one shared cost -- the local loop and NTS-COE -- differently from the many other shared and common costs of the firm. It is reasonable and appropriate for access charges to contribute to the recovery of shared costs -- including the local loop -- but the assignment of costs using the CCLC is no longer warranted.

To allow the CCLC to continue to exist is to imply, inaccurately, that local exchange services require a "subsidy" from toll. Eliminating the CCLC does not put USWC at risk in terms of recovering its costs; the question is not how much revenue to collect from switched access service but rather what rate elements should be used to collect that revenue. Eliminating the CCLC takes an important step away from the historical method of assigning costs, and the result will be a more streamlined rate structure where rate elements have a direct bearing on the service provided.

### 3. Residual Interconnection Charge (RIC)

USWC proposes a Residual Interconnection Charge, or RIC, to be applied to switched access. USWC contends that it is a balancing tool with which it proposes to generate contribution. USWC argues that it is needed for local exchange carriers to remain viable. AT&T argues that there is no justification for introducing another rate element on a service that's already more than covering its costs, and urges that it is one element of a transparent attempt to increase rates for switching, which only USWC can provide, while reducing it for transport, which is becoming competitive. MCI and Sprint oppose the RIC; Commission Staff accepts the concept but suggests that the charge apply only to traffic transported through USWC local transport facilities<sup>60</sup> and Public Counsel expresses concern about some details, but does not oppose it.

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<sup>60</sup> The proposal does not appear sound, as it would be burdensome to administer and it would handicap the Company's ability to compete in transport.

Having already made the decision to eliminate the CCLC, an old method of recovering shared costs, the decision to avoid establishing a new one is simple. The Residual Interconnection Charge is not related to any one service but is rather a proposed balancing tool for a Local Transport Restructure that was originally proposed outside of a rate case. MCI contends that a RIC is unnecessary in a rate case since there is no obvious need to keep LTR revenue neutral. The Commission agrees. Transport rates and switching rates will be set to produce the level of revenues that the Commission determines to be reasonable and sufficient. The practical result of the RIC would be to increase the switching rate. It is much more straightforward simply to set the switching rate at the appropriate level.

#### 4. Local Switching

USWC proposes to increase its charge for local switching to 0.9¢ per minute in its "urban" zone, up from 0.65¢ per minute proposed in UT-941464, and 1¢ per minute in its "rural" zone. Staff, AT&T, MCI, Sprint, and DOD/FEA all oppose the increase.<sup>61</sup> The real switching rate that USWC proposed also includes the CCLC and the RIC, increasing the rate to over 4¢ per minute.

The Commission concludes that a reasonable switching rate will result from combining the switching charge and the CCLC amounts proposed by Commission Staff. In other words, taking Staff's proposed switching rate as the starting point, the CCLC at its current level should then be rolled into the switching rate and the RIC should be rejected entirely. This produces a rate of slightly over 2¢ per minute, which is reasonable, and revenues of about \$34.5 million. The exact rate and revenue amount, however, should be determined by calculating the difference between the overall revenue requirement in this case and the sum of all other rate changes approved in this order. Further access charge reductions should be made in one year and two years, to coincide in time and amount with the revenue increases that result from the phased-in increases in term loop rates. Each of these reductions will equal about \$2.5 million. Thus, the ultimate level of switching revenues ordered here is about \$29.5 million.

The Commission believes a switching rate of slightly over 2¢ per minute is reasonable. This rate will result in revenues equal to about \$34.5 million, which is the amount that would be produced by the switching charge and CCLC proposed by Staff. In other words, taking Staff's proposed switching rate as the starting point, the CCLC at its current level should then be rolled into the switching rate and the RIC should be rejected entirely. The exact rate and revenue amount, however, should be determined by calculating the difference between the overall revenue requirement in this case and the sum of all other rate changes approved in this order.

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<sup>61</sup> The positions of various parties must be considered in the context of their positions on the appropriate levels for the RIC and CCLC. Commission Staff, for instance, proposes a switching charge of 0.65¢ per minute, but it also would levy a RIC of 0.695¢ and a CCLC that averages about 1.8¢ per minute. The total charge, therefore, for traffic switched by USWC would be more than 3¢ per minute.



This significant decrease in access costs can be expected to stimulate demand for access services, and this effect must be anticipated and accounted for in determining the specific switching rate. USWC proposed no elasticity or "stimulation" adjustment, arguing that it could not be sure that interexchange carriers would pass the reduction through in retail rates. USWC apparently does not disagree with the idea that if retail rates are reduced, its access demand and revenues will increase. Its position against an elasticity adjustment would require one to accept the idea that interexchange carriers will pocket the entire reduction in access costs. In fact, while the reduction in retail rates could be greater or less than the access charge reduction, the most reasonable conclusion in a competitive market is that the full reduction will be reflected in retail rates. An appropriate long-run elasticity value should be used, based on the effect of reduced access charges on the retail rate for toll services. (Ex. 380-TC, p. 70). The elasticity adjustment should be calculated on that basis.

#### 5. Transport

In deferring the local transport restructure from the interconnection case to this case, the Commission had hoped for a more thorough discussion from USWC regarding how to align rates among transport services. Instead, USWC acknowledges in its brief that it has proposed the same levels of transport charges that the Commission rejected in the Interconnection order. That order said that the ratio between DS1 and DS3 should be no lower than the ratio of their TSLRICs. USWC contends that their proposed rates is equal to the lowest ratio of USWC's Seattle-area competitors whose rates have ratios below that of their TSLRICs, providing proof that a ratio below TSLRIC but no lower than USWC filed rates will not hurt small interexchange carriers. Ex. 556-C.

The Company did not attempt to verify whether small interexchange carriers were, in fact, purchasing service from these competitive access providers. Thus, the Commission cannot find whether such rates are proof that a similar ratio for USWC rates will not cause harm or be anticompetitive. On the contrary, there is extensive evidence in this record and noted in the Interconnection order demonstrating the discriminatory potential of transport rates that do not reflect a proper ratio between DS0, DS1 and DS3. See, the Interconnection order at page 81.

Commission Staff contends that the Company needs to comply with the interconnection order regarding pricing of transport by pricing transport services so that they maintain a ratio between their rates that is at least equivalent to the ratio of their respective TSLRICs. In the absence of any further evidence or argument elucidating this matter, the Commission reaffirms its prior decision.

AT&T cites revised USWC data on historical demand that shows USWC revenues for transport would increase 30% over what the Company originally estimated (compare Ex. 553, p. 3 with Ex. 563, p. 3). AT&T argues that the rates styled "illustrative" by USWC in Ex. 565 should be adopted.